

Message Text

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PAGE 01 BONN 08273 01 OF 02 090613 Z

14

ACTION EUR-25

INFO OCT-01 ADP-00 IO-13 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-03 USIA-12 PRS-01 L-03 H-02 RSR-01 /169 W
----- 042296

R 081912 Z JUN 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5632

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 08273

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E. O. 11652: GDS

TAGS: EFIN, ECON, GW

SUBJECT: OFFICIAL VIEWS ON PROSPECTS FOR DAMPENING
INFLATION IN GERMANY

REF: BONN 8165; BONN 7771; BONN 6746

1. SUMMARY. EMBASSY OFFICERS AND MR. MARTIN KOHN OF THE
FRB HAVE, DURING THE LAST FEW DAYS, HAD AN
OPPORTUNITY TO INFORMALLY TALK TO WORKING LEVEL EXPERTS
IN THE ECONOMICS AND FINANCE MINISTRIES AND THE BUNDES-
BANK ON ECONOMIC PROSPECTS FOR 1973 AND 1974. AL-

THOUGH THESE EXPERTS CHARACTERIZE THE COMBINATION
OF THE GOVERNMENT'S ANTI- INFLATION PROGRAM AND THE
BUNDESBANK'S TIGHTER CREDIT POLICY AS QUITE DRASTIC,
THEY ALSO BELIEVE THE RATE OF INCREASE OF THE COST- OF-
LIVING INDEX WILL ACCELERATE TO A PEAK OF 9 PERCENT OR
EVEN HIGHER TOWARD THE END OF THIS YEAR (COMPARED TO
SAME MONTH OF PRECEDING YEAR). ACCORDING TO THEIR FORE-
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PAGE 02 BONN 08273 01 OF 02 090613 Z

CAST, THE RATE OF INCREASE WILL NOT DROP BELOW 7 PERCENT UNTIL THE MIDDLE OF NEXT YEAR, AND THEY EXPECT THE AVERAGE ANNUAL RATE OF INCREASE OF CONSUMER PRICES TO BE 7.5 PERCENT IN 1974. OUR POLICY LEVEL CONTACTS, ON THE OTHER HAND, ARE SOMEWHAT MORE OPTIMISTIC. THEY BELIEVE THAT THERE IS STILL A FAIR CHANCE OF A SHOCK EFFECT BRINGING THE RATE OF CONSUMER PRICE INCREASE BELOW 7 PERCENT THIS FALL- DOWN FROM THE 7.9 PERCENT IN MAY OF THIS YEAR. SUCH A RESULT WOULD HELP TO MODERATE NEW UNION WAGE DEMANDS AT THAT TIME. END SUMMARY.

2. GNP: WORKING LEVEL, IN- HOUSE ECONOMIC FORECASTS WITH- IN THE GERMAN GOVERNMENT PREDUCT THE CURRENT BOOM TO PEAK SOME TIME IN MID-1974. THEY DO NOT EXPECT THE PRO- PECTIVE POLICY MEASURES TO HAVE A SIGNIFICANT DAMPENING EFFECT ON THE ECONOMY THIS YEAR. THE YEAR- ON- YEAR IN- CREASE IN REAL GNP IS EXPECTED TO AMOUNT TO 6 PER- CENT IN 1973, WITH A SLOWDOWN TO 4-5 PERCENT IN 1974. NOMINAL GNP, ON THE OTHER HAND, IS EXPECTED TO RISE BY ABOUT 12 PERCENT IN BOTH YEARS.

3. THE ECONOMICS MINISTRY' S WORKING FORECAST FOR GNP COMPONENTS FOLLOWS: THIS FORECAST IS HIGHLY CONFIDENT- IAL AND WILL NOT BE PUBLISHED.
GNP BY COMPONENTS (PERCENTAGE GROWTH OVER PRECENDING YEAR)

	1973/1972	1974/1973
PRIVATE CONSUMPTION	11	11
PUBLIC CONSUMPTION	13	13
GROSS CAPITAL FORMATION	12	11
INVENTORY ACCUMULATION	(DM 14	(DM 15
	BILLION)	BILLION)
CONTRIBUTION (FOREIGN SECTOR) (DM 3		NO FORECAST
	BILLION	
NOMINAL GNP	12 - 12.5	12 - 12.5
REAL GNP	6	4 - 5
GNP DEFLATOR	6 - 6.5	8

4. TRADE SURPLUS: BUNDESBANK WORKING LEVEL ESTIMATES FOR THE 1973 FRG TRADE SURPLUS (EXPORTS (F. O. B.); IMPORTS (C. I. F.)) HAVE BEEN REVISED UPWARDS FROM AN CONFIDENTIAL

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PAGE 03 BONN 08273 01 OF 02 090613 Z

EARLY APRIL PROJECTION OF DM 22.5 BILLION TO SOMEWHERE BETWEEN DM 25-26 BILLION. WORKING LEVEL OFFICIALS IN THE FRG ECONOMICS MINISTRY ARE OFFICIALLY STICKING WITH THE DM 22.5 BILLION TRADE SURPLUS ESTIMATE, BUT CON- CEDE THAT THE TRADE SURPLUS FOR 1973 COULD REACH DM 25 BILLION.

5. THE FRG 1973 DEFICIT ON SERVICES AND TRANSFERS IS PROJECTED BY BOTH THE BUNDESBANK AND THE ECONOMICS MINISTRY TO BE ABOUT DM 22.5 BILLION, WHICH INCLUDES AN ESTIMATED DM 10 BILLION DEFICIT ON THE TRAVEL ACCOUNT AND A UNILATERAL TRANSFER DEFICIT OF BETWEEN DM 14-15 BILLION (REMITTANCES BY FOREIGN WORKERS IN THE FRG

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PAGE 01 BONN 08273 02 OF 02 090611 Z

11

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 08273

IS ESTIMATED AT DM 7.5 BILLION FOR 1973).

6. BUNDESBANK OFFICIALS NOW ESTIMATE, AND FRG ECONOMICS MINISTRY OFFICIALS CONCEDE, THAT THE FRG CURRENT ACCOUNT (BY GERMAN DEFINITION) FOR 1973 COULD BE IN SURPLUS BY AS MUCH AS DM 3 BILLION (BUNDESBANK OFFICIALS ATTRIBUTE DM 0.5-1.0 BILLION OF THE ESTIMATED 1973 CURRENT ACCOUNT SURPLUS TO EFFECTS OF THE GOVERNMENT' S STABILIZATION MEASURES (REFTELS)).

7. BUNDESBANK OFFICIALS FORESEE A NET INFLOW IN THE LONG TERM CAPITAL ACCOUNT (PUBLIC AND PRIVATE) FOR 1973. DIRECT INVESTMENT FLOWS ARE EXPECTED TO BE ROUGHTLY IN BALANCE FOR 1973, BUT PRIVATE CLAIMS ON FOREIGNERS ARE

EXPECTED TO DROP DUE TO THE CREDIT SQUEEZE IN THE
FRG.

8. NO ONE IS VENTURING ANY GUESSES ON THE SHORT- TERM
OR ERRORS AND OMISSIONS ACCOUNTS.

9. THIS MESSAGE HAS BEEN DRAFTED AFTER MR. KOHN' S
DEPARTURE.

HILLENBRAND
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PAGE 02 BONN 08273 02 OF 02 090611 Z

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